

**SLOVAKIA
HOUSING POLICY STUDY TOUR**

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TABLE OF CONTENTS

| | | |
|------|--|----|
| I. | EXECUTIVE SUMMARY | 1 |
| II. | GENERAL OVERVIEW OF RELEVANCE OF TOUR MATERIALS TO THE SLOVAK SITUATION | 1 |
| III. | AGENCIES VISITED | 2 |
| IV. | LECTURES AND PRESENTATIONS | 2 |
| V. | LOGISTICS | 2 |
| VI. | PARTICIPANTS | 3 |
| VII. | EVALUATION OF THE OVERALL STUDY TOUR EXPERIENCE | 4 |
| | ANNEX A: MAJOR DOCUMENTS USED AS PART OF THE SLOVAK HOUSING POLICY STUDY TOUR | 6 |
| | ANNEX B: TWO PAPERS HANDED OUT TO STUDY TOUR GROUP | 7 |
| | ANNEX C: STUDY TOUR AGENDA | 25 |

I. EXECUTIVE SUMMARY

From April 20 to May 4, 1996, five officials from the Slovak Ministry of Construction and Public Works and two representatives from a bank and research institution in Slovakia participated in a study tour to the U.S. aimed at assisting the GOS to implement housing policy reforms. The group spent one week each in Boston and Washington, D.C. visiting local housing agencies, mortgage lenders, housing policy experts, housing developers, and USG agencies in order to benefit from wide experience gained in the U.S. with the implementation of housing policy programs. The study tour ended in early May with a roundtable discussion on housing policy, to be attended by U.S. and international housing experts, with a focus on applying the U.S. experience to Slovakia as the country prepares major new policy initiatives to spur housing construction and reform the housing sector.

II. GENERAL OVERVIEW OF RELEVANCE OF TOUR MATERIALS TO THE SLOVAK SITUATION

The materials presented were all relevant to some degree, with U.S. tax policy and its attendant incentives being the least applicable. In the U.S. system there is an obvious reliance on the tax codes to stimulate construction and to make home ownership affordable for young couples and special groups like veterans. Almost every discussion during the two weeks at least touched upon some form of tax incentive or other, and it became routine for the leader to discuss just what features of our system might be of use in Slovakia. The one outstanding feature in this area which might be followed up by the Slovak group is the use of tax free municipal or state bonds, collateralized by the housing itself, and with some form of government guarantee. This was discussed by the group as an attractive option.

The concept of a secondary market as a way to leverage large sums interested the group, but everyone concurred that the primary mortgage market banking system is not yet well developed, and therefore a secondary system is perhaps decades away. In any event, the discussion of secondary markets introduced the group to a perfect example of how capitalism recycles and leverages capital enormously.

Public housing authority units, the Harbor Point public/private mix project, and the rehab units in Baltimore showed the low end and mid-range types of units available to American families in need of government or private assistance for housing. Given more time, it would have been helpful to show high end construction of single family homes and multi family blocks, not only to show the types and quality of units available to the vast majority of Americans, but also to demonstrate the best in prefab methods and materials.

The tour was designed to make subtle commentary about the continuation in Slovakia of their concrete monolith tradition. And while many discussions took place during windshield surveys of suburbs, no specific visits to low rise, market rate, multi family projects or single family homes took place.

III. AGENCIES VISITED

The visit to HUD was a non-starter. Despite an outline of proposed topics having been presented ahead of time, the presentations were of a canned nature and questions were not well answered by the HUD speakers. The visit was set up through the official tour person at HUD, and perhaps next time it could be set up by a different approach.

The visit with the Maryland Housing and CD agency was the highlight of the trip, based on comments from the Slovaks. The Maryland people really extended themselves in having the right experts there, and calling in high level officials to answer questions that those in attendance could not. It was well orchestrated to present a comprehensive picture of what the agency has for programs, some of the internal problems that are inherent in such a large and complex organization, and how and by whom they are solved. This gave the Slovak group a real feel for the workings of an agency with about the same population to serve, and with a full array of services provided to clients. Some of the officials from the Maryland agency would make excellent participants in a workshop in Slovakia should one develop.

The National Association of Homebuilders visit was a little disappointing in the presentation of materials, which was not very dynamic and did not elicit a lot of questions. Since this was done for a fee, more was expected in terms of graphics and stimulating presentations.

Eastern Bank put on an excellent description of what an aggressive and technologically advanced mortgage bank does to stimulate mortgage activity and minimize risk. The bank provided the forms for mortgage applications and credit worthiness, and gave excellent descriptions of the day to day marketing of mortgage products. The banker in the group, Ulaher, had many questions, and will carry back a good many ideas and forms to work on.

IV. LECTURES AND PRESENTATIONS

The meetings at Abt early in the program were quite comprehensive and inclusive, and because of time limits, left the group wanting more information about rent structures, the mortgage market, and how to deal with the homeless. Some of these areas were covered later on in other sessions.

The presentation by George Galster was received by the group as a very useful description of major social problems having some parallels in Slovakia.

Doug Diamond's material was well received as a description of what is possible and not possible for the Slovak agency to do in the overall economy in terms of providing steady numbers of units within fiscal constraints. Maris Mikelson's information complemented this material quite well.

V. LOGISTICS

The tour had fewer hitches than expected. There were no complaints about doubling up in hotel rooms, and the two hotels were fine. The Residence Inn in Bethesda was especially good, with all sorts of amenities and proximity to the Metro.

The group spoke English better, and had travelled more than indicated on their biodata sheets. This meant that they were able to explore on their own easily, and they did at every opportunity. The provision of cultural events was such that everyone saw a good representation of American culture (Boston, Salem, Mt. Vernon, Annapolis, etc.), and shopping.

Finding a cultural event that everyone would like was a challenge, 90 percent attained, because of language differences. Pure musical performances may be the way to go if affordable, in that the Kennedy Center performance (Nomatumba) had some dialogue in it. Classical music, however, is better attended back home. Visitors want American experiences, and on their own they discovered student performances at Harvard (inexpensive and fun for them).

The prime interpreter, Katarina Cockrell, was outstanding and should be used again. She is capable of working alone. Ivo Reznicek was less proficient, but certainly acceptable for future work. A third interpreter was hired on the basis of recommendations to the interpreting company, was seen as unsatisfactory, and let go immediately. Katarina carried on well without him.

VI. PARTICIPANTS

The outstanding speaker and asker of questions was the economist Pavel Giller. He showed a very good understanding of market forces, affordability issues, social problems, and the problems to be anticipated in qualifying buyers and starting a stream of mortgage payments back to the bank(s). He is a natural leader who is not afraid to delve into areas where he has had little experience or training, in terms of asking highly thoughtful questions and offering astute observations.

The leader, Lubor Cuda, was a bit circumspect, and despite attempts to elicit a "grand scheme" or plan of action he foresees for his revolving fund and mandates, he either is not there yet in thinking it through, or he uses the trial balloon technique to determine the group's consensus on what may be remotely possible and what may be out of the question as to agency mission and mechanics.

Elena Szolgayova seemed best able to understand American housing social problems, and she was a keen observer of architecture and layout. Intellectually she is as capable of

anyone in the group of discerning the big picture in housing as well as concrete steps that will lead to a real market situation.

Stanislav Ulaher seemed to absorb much of the mortgage and banking issues information, and offered a few areas he will follow up on, but he was unique in the group, being from the banking community, and there was little interplay between him and other Slovaks at the meetings.

Vladimir Cvacho offered significant input to almost all discussions, with no particular area of emphasis or orientation.

Ian Jakubov is both an administrator and technical person. he is very sharp with details, and seemed content to be by himself in finding out about handicapped standards, etc. He's very astute and able to follow all discussions.

Viera Hlavacova was the quietest, and no conclusions are drawn about her information intake or orientation.

VII. EVALUATION OF THE OVERALL STUDY TOUR EXPERIENCE

Below is a summary of participant views of the tour program, expressed or implied throughout the tour and at the closing session:

1. The subject of debt finance was of special interest to the group, in that the government of Slovakia has developed a policy under which the modernization of the public housing stock and the creation of new units is likely to be accomplished through a borrowing at the state level. Debt financing was a subject that came up many times in a number of contexts, and a frequent comment was that bond issuance is a likely approach for Slovakia, but the details of U.S. debt finance are a bit difficult to absorb in a short program. The probable cause of this concern is that only one of the members of the group is a specialist in the banking industry, and has a level of understanding of the basic concepts of the subject much higher than the others in the group. He had no colleagues present with whom he could compare notes or share concepts, and others in the group seemingly relied on him to absorb the specifics. Perhaps the next group should be more balanced toward banking experts if debt finance is to be one of the main topics.

2. Public housing in the U.S. is generally for the poor as a last resort, or for special groups such as the elderly or veterans. In socialist countries public housing has been all-inclusive. While there was an attempt to show a mix of public and private stock to the group, the units were generally low end. Participants could readily see other housing types, and some in the group may have been under the impression that the good managers of public housing are the exception, that public housing managers need to be crafty and politically astute to provide anything above minimal service and modernization (Cambridge is an example). It might have been more balanced to present private stock that is well-managed, and at market

rents, in that Slovakia will some day have market rents and an entrepreneurial class that will provide comfortable units at a profit based on rental income, rather than public subsidies craftily gained. Participants did not express any problem with seeing only low end units, but did have questions about private management from time to time which might have benefitted from more exposure to the private housing sector.

3. The concept of a secondary mortgage market was difficult for group members, whose country is only now developing a primary market. The secondary market information might have been introduced better only as written backup material for future reference.

4. At least one of the members of the group is charged with investigating and helping to solve the homeless problem in Slovakia. Since the homeless problem there includes the Gypsy population almost exclusively, materials that were presented were by definition of limited help. Participants realized this would be the case, but were eager to pick up any advice that might be remotely helpful in this problem area.

5. The issue of rent structures and the concepts of supply and demand in a changing economy were well received, and raised many questions and piqued interest in a variety of ways. Looking back, it might have been advantageous, although not economical, to introduce Doug Diamond's subject matter early in the program, back it up with some more intense discussions with representatives of the private market, and then return to Doug and Maris Mikelsons near the end to tie it all together.

6. As the meeting with HUD was of little relevance (other than to point out that the central planning era in American housing has come and gone), future programs should avoid visits to agencies simply as courtesy calls, and through the use of specific questionnaires to participants prior to the trip, "mini HUDs" and other state agencies could be singled out for detailed analyses of specific housing planning issues. For example, the Maryland housing officials were more than accommodating, and with a focused approach toward that agency based on client needs, more time could have been spent in Maryland with participants breaking up into smaller groups and meeting with section chiefs.

7. Little attention was given in the design of the program as to building layouts, design criteria, densities, etc., and there was insufficient time to delve into such issues. The approach was rather to show a variety of housing types and densities and approaches to construction. My impression was that the participants feel that North American buildings are a bit flimsy in general, and that wooden buildings in particular are insubstantial, fire hazards, and require a high maintenance effort. Therefore it is recommended that the next tour should include design and engineering staff and that the program include an intense description of U.S. building techniques and economics in order to begin to spark an interest in non-monolithic construction, geared to the realities of Slovakia.

ANNEX A

MAJOR DOCUMENTS USED AS PART OF THE SLOVAK HOUSING POLICY STUDY TOUR

"Housing Allowances: Assessing the Potential for Slovakia", Maris Mikelsons, Urban Institute, 1996.

"The Evolution of Housing Policy in Transition Economies", Douglas B. Diamond, Urban Institute, 1996.

Housing Policy Study tour descriptive materials, prepared by Alan Edmond, 1996.

"The Future of Home Building", selected chapters, National Association of Home Builders, 1996 edition.

"Housing Development Manual", excerpts from October, 1990 edition, Commonwealth of Massachusetts.

Various handouts and print materials from the Massachusetts Executive Office of Communities and Development, describing elderly and special needs housing, support services, non-profits, tax exempt financing, and the role of the local housing authority.

"Housing Policy: a Work in Progress", Douglas B. Diamond, the Urban Institute, 1996.

"Housing Finance International", December, 1993.

Flow charts, Tax Exempt Bond Financing and Tax Credit Financing, Massachusetts Executive Office of Communities and Development, 1996.

Various descriptive materials from the Massachusetts Housing Finance Agency, the Maryland Housing Finance Agency, the Cambridge (MA) Housing Authority, and others. Program descriptions, brochures, etc.

ANNEX B**TWO PAPERS HANDED OUT TO STUDY TOUR GROUP**

THE EVOLUTION OF HOUSING POLICY IN TRANSITION ECONOMIES

Douglas B. Diamond

There is a surprising degree of unanimity in the world today with respect to the necessity of a market-driven economy for economic growth. However, there is a great deal of divergence in practice about how to move from a state-driven system to a market one. Not coincidentally, the same situation prevails in the area of housing policy.

As long ago as 1988, the members of the United Nations, in stating a "Global Shelter Strategy for the Year 2000," agreed that the most important contribution that a government housing policy can make is to "enable" the efficient workings of the private sector. Before arriving at this remarkable consensus, most governments, including those in all of the most advanced countries, had previously experimented with ambitious programs of public construction or government subsidized finance. In fact, many of the countries went through similar evolutions in policy, for similar reasons.

It was in the 1950s that the U.S. and many Western European countries experienced great support for public production of housing. By the mid-1960s, it was clear that (1) such production was far more expensive than privately-organized production and (2) the private sector was more responsive to the wishes of the consumer and more effective with respect to management. Steadily since then, these countries have shifted the focus of their efforts to assist housing towards assisting the private sector. First, the incentives went to the producers, with subsidized finance or tax advantages or cheap land. Gradually, most of these countries have shifted to directly assisting needy households with cash assistance in order to buy or rent housing provided by the private sector.

The developing countries have largely followed in these footsteps, but with a lag of 10-20 years. Following independence, former colonies proudly set forth programs to build huge numbers of better quality houses for their urban populace, many of whom lived in little more than ragged shacks. It was only after some of these efforts literally bankrupted the countries that these governments have moved along the policy evolution curve. In the 1980s, policies often focused on simply subsidizing site development, but in the 1990s, in keeping with the new consensus, most countries are working towards developing more effective systems for unsubsidized finance and encouragement to private sector development efforts of all sorts, and towards targeting subsidies directly only to the neediest.

A MYTH OF TRANSITION

Part of the mythology of transition in the former centrally-planned economies is that these countries can skip over the "mistakes" of the developing and developed worlds and move directly towards contemporary "best practices." But this view ignores the reasons why it

has taken these other countries 30-40 years to arrive at the position they now hold on these matters. It was not simply ignorance by experts of the theories of market efficiency that caused policymakers to follow the routes they did. In any political system, generally the leaders can only take the public where it is somewhat willing to go. In a democratic system, the leaders that get elected, for good or bad, are usually those most in tune with the public perceptions.

Thus, it is the pace of evolution in the thinking of the public, as well as of the technocrats, that most affects housing policy. In the prosperity in the U.S. in the 1950s, it was felt that the government should clear away the slums and build large tracts of new housing for the poor. In war-ravaged Western Europe, it was felt that direct public intervention was needed to rebuild the rental stock without price gouging by private owners. In post-colonial countries, public construction was a good way to quickly expand employment opportunities (and political patronage) and show visible proof of progress.

These views were held not just by the general public, but also by many opinion leaders in the media and universities. What generally caused these views to change was actual experience. Not experience in other continents or even nearby countries, but immediately at hand, in the form of ballooning budgets, dissatisfied consumers, or frustrated would-be beneficiaries. Only then did views change, and, with a lag, so did policies.

The transition countries may be able to accelerate this policy evolution, but it will be difficult to do so without some first-hand experience on which to base it. In fact, it is hard to overestimate this difficulty in countries where, until recently, most urban households either received their housing unit directly from the government or received a major subsidy towards it; where private landlords have not been seen for 40 years; and where no one paid a true market rate for financing. In such an environment, the notion that housing is best left to an unfettered and unsubsidized free market is foreign to most people, both literally and figuratively.

SHORTENING THE POLICY EVOLUTION PROCESS

If one adopts the view that political systems evolve their housing policies based on local experience, and that transition countries will eventually want to move towards an "enabling" strategy, there may be a way of shortening the policy evolution curve. That method is to move ahead with several different policy approaches at the same time, to incorporate as many market-enabling aspects as possible in each and learn from all of these experiments.

We can start with the policy that people are most familiar with. State-sponsored construction, ownership, and management of large scale housing projects is presumably as nearly as discredited as in the advanced Western countries. Even the casual visitor to any transition country soon becomes aware of the distaste that many feel for areas of massive prefabricated flats. In addition, government construction has an unsustainably high cost, and introduces a severe inequity between the lucky few recipients and the unlucky. Monopoly management companies tend to be inefficient and ineffective. Despite the record in this area, there seems to be the same evolution in policy thinking as occurred elsewhere towards the

idea that local governments might execute government-sponsored construction projects better. Thus, some countries are considering financing such local government projects.

Such an effort will fail ultimately, because governments of any kind can not charge appropriate rents, can not design and execute projects as cheaply and as consumer responsive as the private-sector, and can not manage and make maintenance investments as effectively as the private sector. The governments and the public in transition countries need to learn these lessons again before being ready to abandon public housing construction entirely and take the difficult decisions needed to support the private owner and rental markets (e.g., strong eviction and foreclosure laws). Despite this, the project can still push the country along the policy evolution process. For example, government-sponsored projects can be kept small in scale, designed by competing private firms, judged by potential residents, put out for competitive bid, and allocated according to a rationale more oriented to real economic and social circumstances than on connections or time on a waiting list. Even more promising would be to attempt to recover as much of the costs as possible by setting rents at levels commensurate with normal burdens on household budgets elsewhere, 20-30 percent of income, and provide subsidies only as needed according to a sliding scale based on income and family size. The management process could include tenant representatives and services could be competitively contracted for.

All of these steps would move the system closer to a market-based system. Another area of potential for further steps would be in the disposition of unfinished state-sponsored projects. One practical approach in this area might be to auction off the unfinished projects to private developers. If they have no market value, that is a good indication that they should simply be demolished. If they can be finished and marketed economically, the private developers will do so more effectively than the government. While it is not a good policy in the long-run, it might be a useful step forward to provide the developers with a guarantee of bank loans for such projects, but only at market rates and with the government bearing only up to 80 percent of the risk.

Steps can also be taken in the area of housing finance to develop more experience and tools to move towards more effective policies. Already, most countries have moved away from low fixed-interest rates for housing loans towards market based rates, but sometimes with a large subsidy from the market-determined rate. If such a subsidy is provided, it is another step forward to formulate the subsidy as a one-time "buydown" of the interest rate paid for fully up-front (e.g., the rate is bought down by a specific amount for each year in the future and the present value of that cost is paid to the lender up-front.) In that case, the government faces the full cost of its subsidy commitment, rather than putting off much of it into the future. The downside of this is that it makes clear the cost burden of making this support very widespread, a visibility that encourages movement further along the policy evolution process, towards shrinking the subsidy and targeting it more tightly. And doing everything possible to encourage unsubsidized finance by private institutions.

KEEPING AN EYE ON THE DESTINATION

The end point of the policy evolution process in transition countries is likely to be a market-oriented legal and financial system supporting a largely owner-occupied and unsubsidized housing sector, with a rental sector composed of small-scale landlords (each with a few units) and perhaps some mildly subsidized "social housing." Subsidies will likely be channeled through a housing allowance scheme, which is based on measurable need and varies over time as the need changes.

Getting there reasonably quickly will take more than simply pursuing flawed, but publicly popular, policies that eventually fail from their own weight. It must include actively developing the legal and financial premises of such a system, including reasonable foreclosure and eviction, a stronger banking system, encouragement of housing savings, and so on. Another step that is inevitable is either raising rents significantly in public housing or privatizing it, in order to provide for its maintenance and to lay the foundations of a more active resale market and a private rental market of small scale landlords.

Thus, it is important that movement be maintained towards these conditions even as governments pursue construction and financial subsidy policies that may match the mood (and institutional capabilities) of the moment but will need to be supplanted with more advanced policies, hopefully sooner rather than later. The suggestion here is that the policies that are pursued today for reasons of expediency at least also have the seeds of improved policies in the future, by promoting activities such as private development and private lending that are necessary ingredients in the full-fledged market-based housing system of the future and by forcing the rationalization of housing subsidy policy.

THE CONTINUING ROLES FOR SUBSIDIES

Most countries whose primary housing policy is the full enabling of the private housing markets still provide some kinds of housing subsidies to at least some of their citizens. Some countries essentially subsidizing housing for nearly everyone, more or less indiscriminately, with the implicit intent of channeling more resources into housing than what people would naturally do themselves under unsubsidized conditions. This seems to reflect a unverified belief that a well-housed populace is, as a group, more socially content than another country with the same income but less housing. For example, this is still the case in the U.S., with the deduction permitted against income tax for interest on loans to buy houses but not on other kinds of personal loans.

The weakness of this approach is that there is a cost to any type of transfer or subsidy through the government, since whatever cost burden is taken on by the government must come ultimately from the taxpayers. This means that the entire range of tax rates have to be higher than otherwise in order to give everyone a gift of a housing subsidy. These higher tax rates tend to discourage the economic growth that is the best housing policy.

Because of these considerations, many countries, including Germany, Britain, and the U.S., have cut back or eliminated these kinds of indiscriminate subsidies for housing. Instead, they have focused on trying to help only those who need help to obtain a minimally modest house or flat. Sometimes this assistance takes the form of reduced interest rates or a government guarantee on an extra amount of loan, but just for those most in need. Another approach taken is to give eligible households a one-time grant to contribute towards the cost of a modest housing unit.

This "sparse" kind of subsidy policy is particularly important for a formerly centrally planned economy, where the total supply of housing and the amount of housing available to a particular individual used to be determined largely independently of what people could realistically afford, given the real resource costs and the effective wealth of the country or of the individual. It is important that, as the economy moves towards more of a market basis, the housing sector be integrated into the general economy. This implies that most people face the real market cost of housing and housing finance and that subsidies be used sparingly for clearly defined purposes.

Debates about removing subsidies for these reasons are often confused by concern that removal of a subsidy will negatively affect construction and thus the economy. Housing construction is an important part of the economy, particularly with respect to employing many people with relatively low skills. But subsidizing housing for this reason ignores the fact that the subsidy for housing is preventing spending on something else, including investments in important physical and social infrastructure, such as roads, power, and education. Moreover, the net effect of the subsidy on construction over the long term is usually very small, because many of the beneficiaries would have obtained similar housing without it sooner or later.

Sometimes it is decided to boost housing production as a part of short-term economic policy. The best policies for boosting production are "counter-cyclical" incentives, incentives that are put in place when the economy is down and then removed when the economy is better. These policies can shift some of the production from prosperous years to less prosperous years. In practice, it is often difficult 1) to know when the economy is going down, and 2) to remove the incentive when the economy recovers. But in principle, it is possible to construct an effective counter-cyclical housing subsidy policy.

An approach that is not efficient is one that confuses counter-cyclical goals with social assistance goals. If a subsidy is well designed to address one, it will probably not be well designed to address the other. For example, encouraging immediate construction of more housing, but only for needy people, involves very large subsidies, but small temporary subsidies to richer households with money to build might generate more construction in the short term and separate subsidies to poorer families might support their ability to afford a minimum quality unit, including buying or renting the former residences of the richer households that build.

This is an example of how social and economic policy in general is more effective when it is more transparent, i.e., the multiple goals involved are pursued explicitly and separately. The other two golden rules of subsidy policy is that it be direct and well-targeted. These rules cause the greatest benefit to be achieved from the least funds. For example, the sizes of housing subsidies such as (1) tax deductions or (2) bonuses to housing savings accounts or (3) subsidies of mortgage interest or construction interest have to be higher to achieve a desired effect because they work indirectly. Similarly, less funds are needed to achieve a given impact on housing if the subsidies are targeted to just those who will really respond to them, e.g., first-time buyers who are unlikely to be able to afford a house otherwise.

Transparency, directness, and targeting have become the rule in the housing policies of more countries. Social goals such as assisting young households to obtain housing can be sought more effectively by providing a direct and transparent grant towards a first modest existing flat, and not also requiring that the house be new to encourage construction at the same time. Assistance with paying for rental housing can be through a targeted rental allowance program. True counter-cyclical housing subsidies, encouraging building new houses now rather than later, can be concentrated in the form of explicitly temporary subsidies.

Permanent subsidies of new housing investments, especially indirect ones (e.g., tax subsidies to housing lending) should be avoided in recognition of their inefficiency and the damage done to investment in other areas.

HOUSING ALLOWANCES: ASSESSING THE POTENTIAL FOR SLOVAKIA

Maris Mikelsons¹

Rental housing in Slovakia is currently owned and operated by municipalities which abide by a national law that sets fixed base rent rates for units according to dwelling size. As a consequence, a low-income household pays exactly the same base rent as a high-income family for a comparable rental unit. In addition, due to extremely strong tenant rights and a system of planned housing production, households in Slovakia cannot easily move from one unit to another. Because of this constraint on mobility, there is often no relationship among a household's size, the size of the unit it occupies, and the household's income. Furthermore, because of low and highly subsidized rents, the housing stock in Slovakia suffers from years of deferred maintenance. In addition, utilities or energy costs associated with housing now constitute the major share of housing costs and in some cases, severely impact on family budgets.

In order to right these inequities and inefficiencies in the housing sector and promote market-oriented housing production, a formula-based housing allowance is needed. In general, a formula-based housing allowance system requires participants to pay a fixed share of their income for housing costs. The allowance fills the gap between this share of income and the rent (including energy or utility costs) for an appropriately sized housing unit of good quality. Under this scheme, a household is free to rent private as well as public housing since the allowance payment is paid directly to the family and can be used to cover housing costs regardless of who owns the unit. By implementing this type of housing allowance in conjunction with increasing base rent for public units and decontrolling base rents for private rentals, Slovakia will be able to initiate housing sector reforms while protecting low-income members of society from having to pay an excessive amount of income for housing.

Housing Allowance Formula

The size of a housing allowance is determined by a household's income, the applicable maximum standard rent, and a predetermined maximum share of income devoted to housing costs. Analytically and administratively, formula-based allowances can be based on *total* housing costs, including utility or energy payments. This type of allowance provides behavioral

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incentives for a more efficient and equitable distribution of housing based on market principals. The formula for computing the housing allowance (A) is given by:

$$A = MSR - (r * Y)$$

The maximum standard rent (cost) MSR is the normative cost of a standard quality housing appropriate for the family's size or characteristics. Under this scheme, the MSR would be calculated for each family using a floor space allowance (using number of family members or age as a criterion to determine floor space norms) multiplied by the costs of different components of housing (base rent, individual energy costs, etc.) valued on a square meter basis (m^2). The MSR could also be defined to include maintenance fees or condominium fees for owner households as well. The MSR is set for different components of housing expenditures but foremost it includes base rent, though it might also include services, energy costs, or other costs. Obviously, if only base rent is included in the MSR the housing allowance would apply only to renter households. What is important is that the MSR be set at the national level for either owner or renters using the best information available for determining the individual components.

In the above equation, r is the share of income a household can reasonably be expected to spend for housing. Currently, households renting in Slovakia spend about only 5 percent of their income towards base rent alone. According to the most recent Family Budget and Expenditure survey, households in Slovakia, on average, spend about 12 to 13 percent of their family budget on housing related expenditures. This compares to about 25 to 30 percent in Western Europe and America. Since few families live in units that are exactly the same size as the social norm, families rarely will pay exactly the percentage of their gross income chosen for r . Again, for equity reasons, the Ministry responsible for social programs should set the r in the formula. The MSR and r in the formula could be changed as housing costs and incomes change at different rates in Slovakia over time.

In the equation, Y is the household's monthly income from all sources, including income from jobs, and non-wage earnings. The income component could also take into consideration the level of a family's wealth such as real estate, foreign assets, etc. Allowance payments equal the MSR when the household has no income and therefore the allowance payment declines as income rises. Thus allowances are phased out or discontinued when $Y = MSR/r$. This method of calculating a housing allowance payment is better than if it were based on whether a household's income is above or below some arbitrary income cutoff as is the case in the Czech Republic. Notice, the MSR is set according to norms for size of the unit and related housing costs and not according to the actual size or current housing related expenditures.

In market-based economies where formula-based allowances are utilized, the MSR is set according to market rents, and is set high enough to provide a household with the ability to lease a good quality unit. The household may lease a unit for more than the MSR , but the difference must be paid by the household. If the allowance exceeds the actual rent, the

households can keep the difference. However, the household might be required to pay a minimum share of their income towards housing costs in order to participate in the program, thereby providing some incentive for households to choose a minimally adequate housing unit.

The behavior incentives built into the formula motivate households to purchase or pay for the amount of housing or housing related goods such as energy, that is appropriate to its characteristics.

Housing Allowance Example

The following examples illustrate how a housing allowance could be computed in Slovakia. Our example assumes that the Slovak housing allowance includes both base rent and energy costs. Therefore, there are two *MSRs* to consider, one relates to base rent and the other to energy cost. Take the case of a family of four with two working adults and two children who wish to live in rental housing.

Through careful analysis, the Ministry of Labor and Social Affairs determined that for a four person family the floor space norm is 70 square meters. This number when multiplied by our illustrative base rent of about Sk 7.14 per meter equals Sk 500 per month, including service fees. This sum would represent the base rent *MSR* in the housing allowance formula. Further, the Ministry determined that the cost of provide heating, electricity, hot water, gas, and other fuels on a monthly basis is about Sk 14.3 per meter in rental housing Slovakia. By taking the floor space norm figure of 70 m² and multiplying it by the normative energy cost figure of Sk 14.3, you obtain roughly Sk 1000. This sum would represent the monthly utility *MSR*. If you add the utility *MSR* to the base rent *MSR* you arrive at the combined *MSR* figure for a renter family of four in Slovakia or Sk 1500. This sum represents the cost of housing a family of two adults and two children in rental housing of a good standard.

A family is entitled to a housing allowance if a reasonable fixed share of their income that is attributed to housing costs is less than the *MSR*. If, for example, the family's income is Sk 13000 per month (both husband and wife are employed). After a careful analytic analysis, the Ministry of Labor and Social Affairs determines that no one in Slovakia should pay more than 12 percent of their gross income towards housing costs. This figure represents the *r* in the housing allowance formula. When this percentage is applied to the family's gross income figure, you obtain Sk 1560. This sum is more than their *MSR* (computed earlier at Sk 1500). Therefore they would not be entitled to a housing allowance.

Our second example shows how the housing allowance would be calculated if one wage earner loses their job. Given this loss, the family's income drops to Sk 8000 per month, but their *MSR* stays exactly the same since their household size did not change. Thus, this family's floor space norm is still 70 m². Now, 12 percent of monthly income amounts to Sk 960.

The *MSR* amount (Sk 1500) is greater than what they can reasonably afford for monthly housing costs. Because of the change in income, the family is now eligible to receive a housing allowance of Sk 540 per month.

To understand the behavior incentives built into the formula you need to compare eligibility criterion (income, rent, and energy *MSRs*) for a housing allowance with the family's actual housing costs and circumstances. Again, the following example is illustrative.

Let us say our four member family lives in a 60 square meter two-bedroom apartment. They spend about Sk 400 per month for base rent (less than the base rent *MSR*) and about Sk 1200 per month for energy costs (more than the norm allowed by the utility *MSR*). As shown earlier in our first example, this family's gross income was Sk 13000 per month and when our fixed share of income percentage (r) was applied to this sum, it resulted in figure of Sk 1560. This is less than what the family actually pays for housing costs (1200+400 or Sk 1600). Nonetheless they are not entitled to a housing allowance. Now under the second variant, the family's income decreased to Sk 8000 per month which in turn lowered their ability to pay for housing to Sk 960 based on the r in our formula of 12 percent. They did qualify for a housing allowance of Sk 540. But their current base rent is Sk 100 less than what the *MSR* rent allowance for a family of four (Sk 500 - Sk 400). Because they do receive Sk 100 as a housing allowance they are given the means or purchasing power to afford more housing than they currently live in.

Thus they are motivated to move to an apartment that is more appropriate for the family's size. In addition, they are also motivated to consume less energy because they pay more in actual energy related costs than their allowance affords them. This family is motivated to conserve energy usage since whatever portion of their utility allowance they do not spend on expenditures for actual energy costs they are allowed to keep. By working out other variants using different costs and settings in the formula you will easily begin to realize how the incentives built into a formula-based housing allowance can lead to a more efficient use of available housing and conservation of energy.

Historical Overview

The first use of the consumer-based housing subsidy, such as the housing allowance, dates back to the early 1900s in Europe. The Dutch first introduced a housing allowance to families displaced by slums during the first war. Some years later, Sweden introduced its first consumer-based subsidy to families with children as a way of making more housing available to the poorer segment of society. Shortly thereafter, another Scandinavian country - Finland - introduced a housing allowance that was made available to large families only. By the late 1950s and 1960s, a housing allowance had been incorporated into national housing policy of the majority of Western European countries.

The introduction of housing allowances has been motivated by different factors in various countries. The earliest development of the housing allowance was motivated by the need to protect large families and the elderly from undue economic hardship (Scandinavia). In other cases the housing allowance was used in a pragmatic attempt to integrate new (high cost) housing with the older (low cost) rental housing, providing families with the incentive to move into new housing that might otherwise remain vacant or never built in the first place.

Another important motivation for introducing the housing allowance in European countries was to promote labor mobility required by changing economic circumstances in different parts of the country. (This is especially true in Slovakia - a country undergoing major structural change during its transition from a command economy to one more orientated towards markets.)

More recently, housing allowances have become the dominant form of subsidizing housing because of cost considerations. Many countries are turning away from producer-based subsidies due to the systems high per-family cost relative to consumer-based subsidy such as the housing allowance. In France, Sweden, and Germany the dominate form of housing assistance is based on a housing allowance. Overall in Western Europe, the extent of housing allowance programs is large; in four countries approximately one-fifth or more of all families receive some form of a housing allowance and in three additional countries it is approximately one-tenth. The United States is currently considering collapsing its dominate producer-based housing programs into a single housing allowance program thereby expanding the coverage of its existing housing allowance to include even more families.

In Eastern Europe, five countries (Lithuania, Estonia, Latvia, Poland, and the Czech Republic) use a modified housing allowance on a national scale to protect a growing pool of low-income families, increase revenues for operating and maintaining rental housing, and promote the production of new housing. In the Russian Federation, a housing allowance system has been successfully adopted by specific cities, such as Moscow. Since the joining of East and West Germany, the West German housing allowance scheme was adopted in the New Lander. There the program has been extremely successful in improving housing conditions and creating a good deal of economic activity associated with increases in demand for housing and related housing goods.

Once implemented -- similar to the experiences of other East European countries -- a formula-based housing allowance scheme for Slovakia will address six main policy objectives:

- protect low-income families from paying an excessive share of their income for housing;
- integrate government-owned and private rental housing in such a manner that families are free to locate from one type of housing to another without incurring excessive costs;
- use the price mechanism as a signal to allocate housing and housing services thereby, eventually, doing away with rent control and subsidies for utilities and energy costs;
- eliminate producer-based subsidies which have led to inefficient consumption of housing since in many cases housing unit size does not correspond with the size of the family;

- raise revenue for much needed building maintenance of the rental housing stock by allowing rent to increase without imposing undue hardship on low-income families; and
- stimulate the production of good quality housing by increasing the ability and willingness of families to pay for housing and utilities costs.

Rental Housing Subsidies

Revenues from base rent payments for public housing have never fully covered operating, maintenance, and capital costs. In the past, the State made up the shortfall in rental revenues but the subsidy was often inadequate to cover the costs associated with public housing.² In 1990, the last year that the State subsidy fully covered the gap between operating costs and rental income, the total subsidy for Slovakia amounted to K_s 1.6 billion. Since then, ownership of public housing has been given to the municipalities, and they are now responsible for the subsidy. Accurate figures on the total subsidy paid since then are not available but it is likely (given constraints on local revenues) that operating and maintenance outlays have fallen behind the inadequate levels of 1990.³

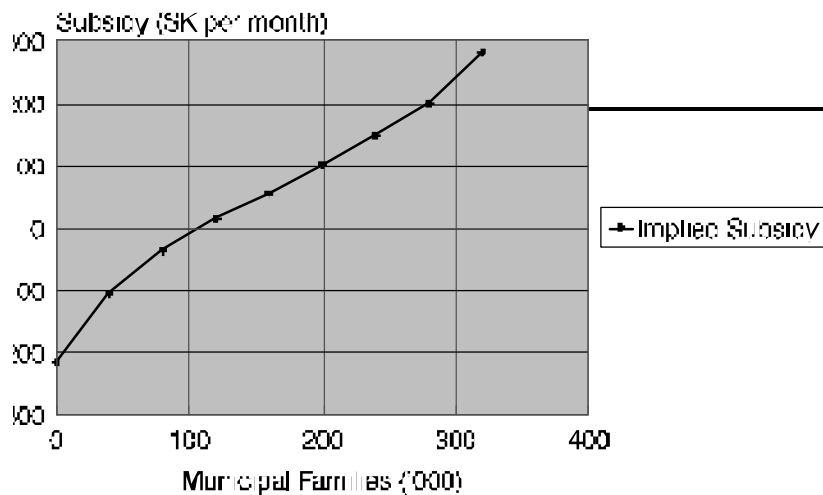
The extent of housing subsidies accruing to municipalities and attributed to operating and maintaining rental housing is best illustrated by an example drawn from a typical municipality. In Bratislava's District 4 there are about 3,500 municipal rental housing units as of mid-1993, managed by a (private) housing management company for a fixed fee of Sk 60 per unit per month. This management fee is paid directly out of the District's general operating revenues which, in turn, are supplemented by base rent payments collected from the tenants on a monthly basis. If base rent, on average, for these units is Sk 320 per month (based on an average size category I unit), then total base rent, less actual arrears of 2 percent, is approximately Sk 1.1 million per month. The monthly fee for managing the units, based on Sk 60 per unit, is Sk 210,000. Assuming the true economic cost of managing and operating the units is equal to four times current rent revenues⁴, the implicit subsidy is about Sk 3.4 million per month. This sum represents the difference between what is needed and what is actually collected on a monthly basis. Given increasing losses from the municipal revenue base due to restructuring and the loss of state transfers to municipalities in 1993 for housing, the District's need for additional revenues for the operation and maintenance of housing accumulates over time causing the condition of the buildings to deteriorate.

Between the years 1964 and 1991, base rents (with the exception of cooperatives) did not change despite the fact that operation and management losses accumulated. Today, government estimates of neglected housing maintenance amount to Sk 40 billion or Sk 90,000 per unit.

In January 1992, service charges for municipal units were increased by about 200 percent. Combined with the base rent for a municipal unit represented an increase of about 80 percent over the previous level (concurrently, rent discounts based on the number of children were slashed). In July 1992, base rents for municipal housing were doubled.

The Association of Housing Management Companies estimates that rents would need to rise by anywhere between 400 to 600 percent to cover costs of operating and maintaining housing units.

RENTER SUBSIDY MUNICIPAL RENTAL UNITS



21

Since rents are still regulated while subsidies for energy costs have almost been eliminated, utility charges constitute a significant share of total housing costs. Along with the general price liberalization initiated in 1991, subsidies for utilities have been gradually relaxed.

Starting in 1992 price controls for electricity, heat, and other fuels (mainly used for heating and cooking) were partially lifted. At the beginning of 1993, price controls for electricity, gas, and other fuels for residential housing were all but lifted. This left heating as the only commodity still explicitly subsidized by the state budget. In 1993, the Republic's budget allocated Sk 2.24 billion as a subsidy for heating costs, mainly going to producers of heating. Today, utility or energy payments make up well over 50 percent of housing costs for renter and owner families.

As a result, there is strong need to evaluate whether a housing allowance should include utility or energy costs as part of the formula. If energy cost were included in the housing allowance formula, the state heating subsidy could change from a producer-based to a consumer-based system. If utilities were subsidized under a housing allowance there would not be a need to pay producers of energy a subsidy. A consumer-based subsidy would promote the efficient use of energy over and above the current system which provides little incentive to save energy or reduce costs of providing energy.

Figure 1 is called the affordability curve for renter families residing in municipal housing units in 1993. This curve illustrates the impact of a housing subsidy system that is tied or linked to the housing unit such as is the case in Slovakia. In order to construct this curve, data from an updated MikroCensus survey file, (a sample survey of approximately 31000 families in Slovakia) provided by the National Statistics Office and INFOSTAT was used. This sample of families reflects conditions experienced by other families living in similar conditions in Slovakia.

The curve basically shows two groups of renters, those that pay more than average affordable rent and those that pay less. To arrive at these groups, the average base rent to income ratio in Slovakia was computed using the MikroCensus file (about 5 percent). The straight vertical line represents this average (base) rent-to-income ratio. By taking this ratio and multiplying it with household income found in the file you arrive at the level of rent or the affordable rent a household should be paying if it were based on the average rent-to-income ratio. Then, by subtracting the affordable rent by the actual rent the family is paying to reside in their municipal rental unit you arrive at the affordable rent curve. This curve depicts two groups of renters, those paying more than their affordable rent while the other is paying less than their affordable rent. The horizontal scale on the left hand side of this figure shows the amount of rent that is below or above the affordable monthly rent (the scale extends from about Sk -300 to Sk 300). The bottom axis shows the cumulative number of families.

About 142000 renter families (37 percent of the total) paid more than the affordable rent. If this number of families is multiplied by the negative difference between the affordable rent and their actual rent you obtain about Sk 25 million or the amount of crowns needed to make rental housing affordable to these families. If their income was supplemented with a housing allowance then the affordable rent curve falling below the vertical line based on the average rent to income ratio would move upwards to meet this line.

The second group of renters are represented by the affordable rent curve which is above the vertical line based on the average rent-to-income ratio. These families or about 63 percent of all municipal renters, pay less than their affordable base rent. For them, their income would allow them to pay more but since rents are strictly controlled, they accrue a windfall at the expense of those who pay more than their affordable rent. With rent control, revenues from rents fall short of the costs to operate and maintain buildings. However, according to the affordable rent curve there is a group of renters who could pay more but instead receive a subsidy. Combined, this implicit subsidy accrues to renters at about Sk 40 million per month or almost Sk. 500 billion a year.

There are indications that income disparities among families in Slovakia are growing. If truly the poor are growing poorer and the rich are getting richer, the amount of subsidy accruing to those renters falling above the average rent-to-income line would increase. Graphically, this would cause our affordable rent curve to rotate on its axis where it touches the rent line (assuming rent control was still in place). The negative gap for those families below the rent line would also widen.

This illustration shows that a good portion of renters receive a subsidy through imposition of rent control at the expense of lower income renters. Because of rent control, municipalities are forced to subsidize the operation and maintenance of their housing. The current policy of fixed rent for housing irrespective of the ability of a family to afford their monthly payment clearly is clearly inequitable. The solution to a policy that allows higher income tenants to accrue a subsidy, and does not afford protection to those families who need assistance with their housing costs, is the implementation of a means-tested formula-based housing allowance.

Slovakia's Social Safety Net

Similar to other Eastern European countries, Slovakia has an extensive system of government cash transfers designed to aid needy individuals and families. Slovakia's safety net is currently divided into three major categories: (1) social security, (2) social welfare, and (3) unemployment. Combined, these programs offer a wide array of benefits. Today, the government is reforming the social benefits programs to function better in a market-based economy.

In response to the changing fiscal demands placed on the social safety net in a country undergoing major structural change, Slovakia's Ministry of Labor and Social Affairs began to modify the benefits program in 1992. The Ministry streamlined the funding mechanisms of various programs and attempted to target benefits more efficiently. In addition, the National Insurance Company was established to manage three social security funds: health care; sickness insurance; and pensions. A fourth fund was also established to manage unemployment benefits.

The government has proposed other modifications to the social safety net. It seeks to consolidate many overlapping programs while redefining others to be more inclusive of individual and family needs. There are three main components to the new system of benefits: (1) social insurance, including health insurance and pensions; (2) state social support, including child allowances, parenthood allowances, and housing allowances; and (3) state social assistance, including programs to benefit the poorest citizens. (While the unemployment benefit will be retained, this program is distinct from the three managed by the Ministry.)

While the three proposed categories of assistance retain many of the current programs, a major distinction from the current system is found in the newly proposed social support category. The social support programs will become means-tested with an income eligibility threshold of either 1.5 or 2 times the established poverty level. The new proposed social support package includes the following social programs: child allowances, family allowances, parenthood allowances, birth grant, disability payments, and housing allowances.

Currently, the structure of the housing allowance component of the newly proposed state social support category is being debated.⁵ One issue centers around whether to make owners and renters eligible for housing assistance. Another issue focuses on whether utilities should be included in the calculation of the housing allowance and whether to base the allowance on a housing quality standard similar to the one used by the *MSR* in formula-based housing allowances. The proposals call for housing allowances to be means-tested, though whether the payment is directed to the manager of the housing, the owner, or tenant is still being debated. Furthermore, local governments have been proposed as the administrators of the allowance, though program parameters such as the *MSR* or *r* would be set at the national level.

Conclusions and Recommendations

Political acceptance of rent increases large enough to approximate market levels and provide resources for adequate housing operation and maintenance is unlikely without a formula-based housing program. A housing allowance program undermines the argument that

⁵ On 22/23 March the Ministry of Labor and Social Affairs in conjunction with USAID sponsored a seminar on housing allowances. This seminar was attended by policy makers at all levels of the government. The material presented at the seminar generated much interest in a system using allowances. The Ministry is proceeding with the design of a housing allowance for Slovakia with USAID assistance.

the poor cannot afford to pay such high rents. Under the housing allowance system, low-income families would be protected since no one would have to pay more than a fixed share of their income for rent or related housing costs. Only middle-income and high-income families (and there are many of these) would have to pay substantially more out of their own pockets than they are paying at present. A housing allowance program is, therefore, the key to political acceptance of rent increases which, in turn, will be essential if an adequately maintained and managed housing stock is ever to be a reality in Slovakia.

According to the simulation results from the Housing Allowance and Income Support (HAIS) model⁶ the amount of State outlays for a housing allowance would in the long term reduce the amount of subsidy attributed to housing. The model results show that annual housing allowance outlays for cooperatives as well as in rental housing tenants, associated with a 100 percent rent increase and a maximum 20 percent share of income devoted to housing (r in the formula) expenditures, was only Sk 64 million per month. This is less than half of the actual state subsidy paid for state rental housing in 1990. For municipal unit renters only, the HAIS model estimated that monthly allowance outlays would total Sk 34 million or Sk 408 million a year. Even with a 400 percent rent increase, only 50 percent of all municipal and cooperative tenants with an average Sk 562 per month allowance would be eligible for the program. Under this scenario, base rent levels four times higher than they are today would approximate true cost of operating and maintaining apartments.

The housing allowance concept is already built into the social support component of the draft social safety net proposals. Ministry officials are currently reviewing earlier drafts of this law. What has worked in other countries are housing allowance programs that have been separated and clearly identified as component of social welfare, rather than being buried in an indistinguishable general payment. One advantage of the housing allowance approach is that Slovakia already operates social benefit programs with established local offices experienced in performing means-tests and issuing social benefit payments to eligible households. Housing allowance administration could be merged into the existing process (there would be no need to set up an entirely new administrative apparatus to implement the program).

The type of housing allowance program appropriate to the conditions of Slovakia needs to be evaluated. By following other country experience with successful housing allowance programs, Slovakia should adopt a housing allowance based on the difference between the household's ability to pay a reasonable share of its total gross income towards housing costs

⁶ With technical assistance from USAID the Ministry of Labor and Social Affairs has used the HAIS model to simulate the impact of a housing allowance scheme in Slovakia. This model was designed specifically for Slovakia so that the number and type of eligible beneficiaries could be simulated under different program designs and parameters. The HAIS model also estimates the amount of the housing allowance (Sk) payable to low income families. The data the model uses is based on an updated MikroCensus file statistically matched with the Family Budget and expenditure survey supplied by the National Statistics Office.

(including utilities or energy costs) and what it costs to rent a good quality unit appropriate to the size of the household. The allowance would not have to be limited to renter families but they should be paid directly to the families since this will allow families to “shop” for housing appropriate to their particular circumstances and allow for much needed labor mobility. The political support necessary for base rent increases will only be forthcoming if a formula-based housing allowance is implemented.

ANNEX C
STUDY TOUR AGENDA

April 20, 1996

WELCOME!

Your visit is being sponsored by the United States Agency for International Development, through a contract with the Urban Institute and a subcontract with Abt Associates. I represent Abt Associates, and will be with you during your visit to Boston and to Washington, D.C. We have set up a schedule that will provide you with valuable information about the housing finance and development institutions in the United States, while also allowing you some time to visit cultural, historical, and recreational facilities in two of America's premiere cities.

While the technical portions of your visit are highly structured as to subject matter and schedule, we will try to provide maximum flexibility in the presentation of material and your reactions to specific issues. That is, American presenters are accustomed to a free-flowing dialogue with their guests, and they welcome questions and statements of contrasting views. In some cases presenters will ask you to begin a session with a description of the Slovak housing industry and the mission of your organization. In some cases presenters will digress from their prepared materials in order to offer information which will be most directly related to your needs, as expressed in your questions and concerns. On the final day of the tour we will have a plenary session which will enable all of us to focus on the critical issues that face you, and those aspects of the American experience that you might find valuable as you pursue your housing goals within your unique conditions.

Our goal is not to lecture you on the way housing policy has developed in the United States, although some historical context will be offered. What we'd like to impart to you, rather, is the state of the art as we know it, based on years of trial and error, and the trends which have put American housing policy and practice in their current conditions. We will discuss successes and failures in the public housing area, and to the extent possible, speak with consumers of public housing.

Frankly, our early efforts to house a large portion of our urban population often led to the creation of social and economic problems which were greater than the problems the housing programs originally sought to cure. The creation of large, dense "projects" in urban areas, often on land that was remote from municipal services, generally met the goal of providing decent housing for poor families, the elderly, and war veterans and widows. However, the projects over the years became institutions unto themselves, isolating residents from the mainstream of society, often on racial and economic grounds. Projects contributed to a downward cycle of poverty, crime, and drugs. Public housing in many cities suffered from a lack of maintenance funds, and fell into disrepair.

Recent housing policy has taken into account a much greater role for the private sector in providing finance, housing construction, and management of rental units, and has provided greater opportunity for home ownership through a series of lending and subsidy programs. You will learn about many of these programs, and how the agencies that run them administer them for their clients.

During your visit you will be shown a representative sample of U.S. housing styles, ownership enabling programs, financing systems, and methods for developing effective partnerships between the public and private sectors. You will be struck by the fact that very little housing is produced solely by the public sector, and by the array of institutions and mechanisms that are available to various sectors of the housing economy and to consumers. We plan also to present you with discussions of the importance of analyzing the demand for housing in various parts of the country, and the methods available for shifting resources from areas where supply of funds exceeds demand to areas where the infusion of funds is necessary to meet housing construction needs.

We also will strive to make your visit as enjoyable as possible in the cultural sense. You will have some free time to explore the two major cities you will visit, and also their surrounding areas. You will be presented with options for visiting historical sites, entertainment, and shopping. Depending on your individual preferences and time available in each city, we will do our best to see that you enjoy your leisure hours and conclude the trip feeling that you have seen the highlights.

I look forward to participating with you in this fast-paced but hopefully productive and enjoyable study tour.

Sincerely,

Alan H. Edmond

HOUSING POLICY STUDY TOUR

GENERAL OUTLINE

The purpose of these activities is to introduce Slovak housing officials to the U.S. institutions that play a key role in determining the supply of housing, its makeup, and the mechanisms by which various consumers may access the housing market, both for rental and ownership purposes. Over a two-week period participants will have the opportunity to visit housing units, and speak with residents in some cases. Federal, state, and local officials will be available for discussions, as will staff members from banks, trade associations, and other organizations interested in influencing housing production and the distribution of market opportunities for housing consumers.

Day 1 will serve as an introduction to the history of U.S. housing efforts, and the roles of institutions now involved in them, with an emphasis on the rationale behind current practice and policy. The group will view an innovative mixed-income approach to housing, with a blend of rehabilitated and newly-constructed buildings. Discussions will take place with tenants, who also contribute to policy making and management for the structures.

Day 2 will feature a description of state agency programs, with an emphasis on special needs of consumers, tax considerations for finance, and federal block grant programs. The afternoon will consist of an examination of the management issues and practices of a local public housing authority.

Day 3 will consist of a presentation on government assistance programs for agencies and individuals. There will also be a session conducted by the Massachusetts Housing Finance Agency, featuring a description of its origin, role, and operations.

Day 4 will include a description of the private housing finance system in the U.S., emphasizing ways in which government may intervene in lending and in secondary market management.

Day 5 will provide an opportunity for a dialogue with Abt Associates housing experts on a number of issues, including U.S. efforts to broaden housing opportunities for various members of society. A local bank will host a session to discuss mortgage lending principles and management.

Day 6 offers a visit with the national association which supports state housing agencies and legislation for housing program improvements. Staff from that group will discuss housing program innovations in several of the 50 states. An afternoon visit to the U.S. Department of Housing and Urban Development will feature a description of the key U.S. housing agency in terms of policy formation and impact upon low and middle income Americans.

Day 7 will consist of a visit with a housing construction expert, who will describe construction finance considerations in planning and building large projects. A trip to Annapolis, Maryland will feature a state housing agency visit in a jurisdiction about the size of Slovakia.

Day 8 will include a description of housing segregation issues in the U.S. and a detailed description of a major housing trade association, the National Association of Home Builders. NAHB discussions will highlight the demographic considerations in household formation, as well as the characteristics of the home building industry.

Day 9 will consist of discussions of counter-cyclical programs employed to aid housing production during economic downturns. The presenter, Douglas Diamond, will also describe key components in housing program design and evaluation. Maris Mikelsons of the Urban Institute will offer a description of the structure and value of housing voucher programs.

Day 10 will bring together many of the tour participants, staff of the Urban Institute, and the Agency for International Development, for a plenary session on the issues raised during the tour. This will provide an opportunity for the Slovak participants to "feed back" their findings to organizers of the tour and to plan with them the activities which will further the interests of housing in Slovakia.

List of Slovak Delegates Housing Policy Study Tour

1. Ing. Lubor Cuda
Housing Section Director, MCPW
2. Ing. Vladimir Cvacho
Housing Policy Department, Director, MCPW
3. Ing. Arch. Elena Szolgayova
Non-Governmental Housing Finance Expert
4. Ing. Pavel Giller
Head of the Department of Economic Tools for Housing Development
5. Ing. Viera Hlavacova
Department of Economic Tools for Housing Development
6. Ing. Jan Jakubov
Minister Section Director
7. Ing. Stanislav Ulaher
Business Division of the First Municipal Bank, General Director

Tour Staff

8. Alan Edmond, Abt Associates Inc., Tour Leader
9. Beth Griffin, Logistics
10. Scott Fisher, Logistics
11. Katarína Cockrell, Interpreter
12. Ivo Reznicek, Interpreter
13. Vladimir Machajdik, Interpreter
14. Natalia Greslikova, Escort

Saturday, April 20

ARRIVAL

Austrian Airlines 2771

Leave Vienna: 11:20 a.m.

Arrive NYC/Kennedy: 2:55 p.m.

Delta 1866

Leave NYC/Kennedy: 5:20 p.m.

Arrive Boston 6:26 p.m.

Transfer to hotel:

Sheraton Commander Hotel
16 Garden Street
Cambridge, MA 02138
Telephone: 547-4800

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| Sunday, April 21 |
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Van pickup at 11:30 a.m.

Historic Tour and Hosted Dinner, Boston and Concord

Dinner is at the home of Alan Edmond in Historic Concord.
Please dress informally.

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| Monday, April 22 |
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Van pickup is at 8:45 a.m.

Morning: Overview and Current Structure of U.S. Housing Market
Jim Wallace

9:00 a.m. Abt Associates Inc.
Ramp Conference Room #2
55 Wheeler Street
Cambridge, MA 02138
(617)349-2706

To provide the social, economic, and political context for U.S. housing policies and practices; also illustrates how the housing sector in Slovakia might evolve.

- Brief description of U.S. housing trends and policies
- Current structure of U.S. housing (AHS chart, basic numbers, preponderance of homeowners, relatively small percentage of households with direct housing subsidy).
- Relative roles of private sector, federal/state/local governments in housing and development (private construction and management; federal support for public housing, subsidized private housing (diminishing), tenant subsidies; state housing finance: local government zoning and regulation
- Role of the federal tax system in housing (homeowner deductions, depreciation allowances for income property, tax-exempt bonds, low income housing tax credit, historic rehab credit)
- Current trends (private contracting for management of public housing, little direct federal role in housing development, shift to portable tenant subsidies)
- Rationale for promotion of home ownership and the limited role of government
- Affordability issues, ownership vs. rental

Lunch on your own at the Abt cafeteria or nearby restaurants

Van departs from Abt Associates at 1:30 p.m.

Afternoon: Illustrative Tour of City and Suburbs
Alan Edmond

- Cross-section of housing styles and practices
- Visit and narrative by manager/developer at Harbor Point, a large mixed-income apartment project.
- methods of rehabilitating older buildings, financing methods, mixed income approach, special problems in management.

Contact: Paul Rogan
Harbor Point Management Office
CMJ Corporation
One Harbor Point Boulevard
Dorchester, MA 02125
(617)436-0771

Ms. Ruby Jaundoo
Harbor Point Task Force
(617)288-5701
Fax: 288-9827

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|-------------------|
| Tuesday, April 23 |
|-------------------|

Van pickup at 8:45 a.m.

Morning: Roles and Programs of State Agencies

Alan Edmond

9:30 a.m. Massachusetts Executive Office of Communities &
Development

100 Cambridge Street, 18th Floor
Boston, MA

Contact Person: Sheila Chiemets, Municipal Affairs Specialist
(617)727-7765, x119

The state housing and development agencies are arms of state government that use certain tax advantages to provide below-market financing for housing, within federal and state laws and tax codes. Each state is free to design its own programs.

- Administration of federal block grants
- Special needs housing programs
- Tax-exempt bond finance for mortgages
- LIHTC allocation

9:30 Welcome and Overview of EOCD Housing Policy
Deputy Secretary Jane Gumble

9:40 EOCD and Local Housing Authorities
Carole Collins, Director, Bureau of Housing Management

10:05 Questions & Answers

10:15 Tax Exempt Financing: EOCD and MHFA
Bert Rodiger, Bureau of Private Housing

10:35 Tax Credit Construction
Lynn Shields, Director, Low Income Tax Credit Program

10:55 Questions & Answers

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| Construction | 11:05 | Special Needs Housing Sarah Young, Director, Bureau of Housing Development and |
| | 11:25 | Questions & Answers |
| | 11:30 | Support Services and Local Non-Profits Ken Spicer |
| | 11:45 | Questions & Answers |
| | 12:00 | Close of Program |

Afternoon: Public Housing Site Visit
Alan Edmond

Van departs 1:00 p.m.

1:30 p.m. Cambridge Housing Authority
675 Massachusetts Avenue
Cambridge, MA

Contact person: John Keane
(617)864-3020

Visit best available housing project and the administering agency. Examine eligibility, allocation, and management procedures, both for projects and vouchers. (This is the closest equivalent to flats owned and managed by the local governments in Slovakia.) Discuss methods of financing public housing.

Wednesday, April 24

Van pickup at 8:45 a.m.

Morning: Overview of Government Assistance Programs for Housing
Jim Wallace

9:00 Abt Associates Inc.
BSG Conference Room
55 Wheeler Street
Cambridge, MA

(617)349-2706

- Public housing (origins in Depression, pump-priming, deserving poor, then housing of last resort, social pathologies, moves to stop development, scatter locations, revert to tenant-based subsidies.

- Federal programs (HUD/FHA) single family insurance at lower end, insurance and subsidies for multifamily rental housing

- Tenant-based subsidies for renters (maybe someday for home purchase)

Lunch on your own at Abt cafeteria or nearby restaurants

Van departs from Abt Associates at 1:30 p.m.

Afternoon: Massachusetts Housing Finance Agency

2:00 p.m. Massachusetts Housing Finance Agency
One Beacon Street
Boston, MA

Contact: Rufus Phillips
Research and Program Development Officer
Colleen Duffy, Government Relations Officer
(617)854-1810

- Agency History
 - Reasons MHFA was created
 - Organizational structure
- Relationships to Local, State, and Federal Agencies
- Current Operations

Thursday, April 25

Van pickup is at 8:45 a.m.

Morning: **Structure of the Private Housing Finance System**
Sally Merrill

9:00 a.m. Abt Associates Inc.
BSG Conference Room
55 Wheeler Street
Cambridge, MA 02138

(617)349-2706

The great majority of housing is financed by private institutions. This process needs to be understood to recognize why the U.S. government intervenes in certain ways, and what actions the Slovak government may need to take to facilitate such a system.

- Depository lenders (Savings and Loans and Banks)
- Secondary Markets
- Mortgage Bankers
- Types of Loans
- Roles of Mortgage Insurance
- Government-sponsored secondary markets (long-term refinance windows)
- Federal home loan banks (liquidity for housing lenders)

Lunch at Abt Cafeteria or nearby restaurants

Afternoon:

Van departs from Abt Associates at 1:00 p.m.

1:30 p.m. Cultural events to be selected from options presented to the group

Friday, April 26

Van pickup is at 8:45 a.m.

Morning: Current developments and applicability to the Slovak context
Jim Wallace, Judie Feins, and Sally Merrill

9:00 a.m. Abt Associates Inc.
BSG Conference Room
55 Wheeler Street
Cambridge, MA 02138

- Public housing - actions on distressed public housing, results of cost studies, private management (Judie Feins)
- Homelessness - nature of problem, different homeless populations, programs for addressing the problems (Judie Feins)
- Affordability approaches - project vs. tenant subsidies, role of income supplements (welfare), attempts at rent control (Jim Wallace)
- Rent control experience - analogies with the Polish experience (Sally Merrill)
- Open forum on applicability to the Slovak context (Sally Merrill)

Van departs from Abt Associates at 12:00 noon

Afternoon: Visit with Lender

1:00 Eastern Bank
125 Washington Street
Salem, MA

Contact: Cynthia Merkle, Senior Vice President
(508)740-6176

To the extent that the Slovak government will work through commercial lenders, it needs to understand their practices and procedures. Eastern Bank representatives will ask the group to

describe the extent to which they expect Slovak lending institutions to develop in the housing field, and what practices they anticipate in the field of mortgage finance. Eastern Bank spokespersons will describe relevant mortgage concepts and their bank's internal procedures for qualifying borrowers, setting rates, interactions with the secondary market, and managing risk.

Saturday, April 27

Check out of Sheraton Commander Hotel Saturday morning.

Van pickup at 8:10 a.m.

Flight Information:

United Flight No. 517
Departs Boston 9:20 a.m.
Arrives Dulles 10:53 a.m.

Hotel: Residence Inn
7335 Wisconsin Avenue
Bethesda, MD 20814

(301)718-0200

Afternoon: Free time. Suggestions -- walking tour of government buildings and the Mall. The White House, Congress, Supreme Court, Smithsonian Institution, Air and Space Museum, Holocaust Memorial, art galleries, cultural museums, and major monuments, all are within walking distance of one another.

Sunday, April 28

Sightseeing or shopping possibilities:

Potomac Mills and Mount Vernon

Blue Ridge Mountains

Maryland Eastern Shore

Washington Mall Museums

Baltimore

Monday, April 29

Morning: Visit with National Council of State Housing Agencies
Alan Edmond

9:00 a.m. National Council of State Housing Agencies
444 N. Capitol Street
Washington, DC

Contact: Nancy Lee
(202)624-7710

- Capacity building for state housing agencies
- Training and technical assistance for state housing agencies
- Working with the legislative branch of government for the passage of progressive housing legislation
- Innovations in housing programs by state agencies around the U.S.

Afternoon: Visit to U.S. Department of Housing and Urban Development
Alan Edmond

2:30 p.m. U.S. Department of Housing and Urban Development
L'Enfant Plaza
Washington, DC

Contact: John Geraghty
(202)708-0770, x237

HUD is the counterpart of the MOC in Slovakia and is the primary agency responsible for housing policy and special programs.

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| Tuesday, April 30 |
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Morning: Visit with Construction Lender
John Miller

(To be arranged)

Financing is essential for the construction industry, but involves special risks and procedures.

- Review of procedures for evaluating proposals, monitoring projects, working out defaults.

Afternoon: Visit with Maryland Department of Housing and Community Development
Alan Edmond

2:00 p.m. Maryland Dept. Of Housing & Community Development
100 Community Place
Crownsville, MD 21032-2023

Contact: Ms. Jan McClellan, Assistant to Secretary Patricia Payne
(410)514-7005

- Overview of the Department
- Overview of Maryland Housing Fund
 - Types of Insurance Programs
 - Importance of Insurance Programs Relative to Housing Programs
- Overview of Community Development Administration
 - Special Loans Programs
 - Housing Development Programs
 - Home ownership Programs
 - Bond Financing Process

Wednesday, May 1

Morning: Housing Voucher Program Design and Potential Usage
Maris Mikelsons

9:00 a.m. The Urban Institute
2100 M Street, N.W.
Washington, DC 20037

(202)833-7200

Afternoon: Visit to the National Association of Home Builders
Alan Edmond and Doug Diamond

2:00 National Association of Home Builders
1201 15th Avenue, N.W.
Washington, DC

Contact: Michael Carliner, Vice President, Economics
Gopal Ahluwalia, Assistant Vice President, Research
Chellie Hamecs, Vice President, Mortgage Finance
Steve Melman, Staff Contact
(202)822-0200

NAHB is the trade association for the housing construction industry. Their staff know all aspects of the industry in the U.S., including how small builders and big builders operate. They also study how demographic pressures and income considerations translate into demand for different types of housing.

- Components of Housing Demand: Household Formations, Replacements
- Characteristics of American Homes
- Characteristics of the Home Building Industry
- Mortgage Finance

- Additional Topics: new building technology, national housing policy, voucher programs, housing finance agency roles

Thursday, May 2

Morning: Evaluating Counter-Cyclical Housing Programs
Doug Diamond

9:00 Abt Associates Inc.
Woodmont Room (2nd Floor)
4800 Montgomery Lane
Bethesda, MD 20814

(301)913-0500

The U.S. has had several programs designed to boost construction during economic recessions. The experiences are instructive as to the potential and perils of such programs.

- Macroeconomic context of housing cycle
- Types of counter-cyclical programs:
 - government-sponsored construction
 - subsidized private rental construction
 - finance subsidies for homeowners
 - guarantees
 - temporary lump-sum subsidies
- Criteria for success:
 - impact vs. cost
 - speed of effect
 - shifting vs. expanding construction
 - targeting benefits
 - interaction with ongoing programs

Housing Program Design and Evaluation
Doug Diamond

- Housing demand/conditions, indicators, and surveys as input for program targeting and effectiveness.
- Interactions between programs (both within housing sector and with other safety net programs).

Lunch is on your own.

Afternoon: Racial Segregation in U.S. Metropolitan Areas — Nature, Causes, and Consequences

George Galster

1:30 The Urban Institute
 2100 M Street, N.W.
 Washington, DC

(202)833-7200

- The Nature and Extent of Residential Segregation
- The Causes of Residential Segregation
 - Interracial differences in purchasing power
 - Preferences for neighborhood racial composition
 - Discrimination by private housing market agents
 - Discrimination by the public sector
- The Consequences of Residential Segregation
 - Multicultural illiteracy
 - Spatial Mismatch
 - Educational and public service inequities
 - Psychological effects
- The Vicious Circle of Self-Reinforcing Racism

Friday, May 3

Morning: **Round table Discussion of Slovak Housing Policy**
Doug Diamond, Alan Edmond, staff from UI and USAID

The Urban Institute
2100 M Street, N.W.
Washington, DC 20037

(202)833-7200

- Discussion of tour findings and applicability to Slovak conditions and goals
- Direction of future housing efforts in Slovakia

Afternoon: **Free time**

Saturday, May 4

Departure

Leave: Delta 1596

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| | Washington/National | 3:40 p.m. |
| Arrive: | NYC/Kennedy | 4:39 p.m. |

Leave: Austrian Airlines 2770

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|---------|-------------|-----------|
| | NYC/Kennedy | 6:30 p.m. |
| Arrive: | Vienna | 9:20 a.m. |